Tennessee Board of Regents
Roane State Community College

For the Years Ended
June 30, 2003, and June 30, 2002

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For more information about the Comptroller of the Treasury, please visit our Web site at www.comptroller.state.tn.us.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

October 21, 2004

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Charles W. Manning, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and
Dr. Wade B. McCamey, President
Roane State Community College
276 Patton Lane
Harriman, Tennessee 37748

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Roane State Community College, for the years ended June 30, 2003, and June 30, 2002. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

John G. Morgan

John G. Morgan
Comptroller of the Treasury

JGM/th
04/060

State of Tennessee

Audit Highlights

Comptroller of the Treasury Division of State Audit

Financial and Compliance Audit
Roane State Community College
For the Years Ended June 30, 2003, and June 30, 2002

AUDIT OBJECTIVES

The objectives of the audit were to consider the college's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

AUDIT FINDINGS

The audit report contains no findings.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

Audit Report
Tennessee Board of Regents
Roane State Community College
For the Years Ended June 30, 2003, and June 30, 2002

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Tennessee Board of Regents
Roane State Community College
For the Years Ended June 30, 2003, and June 30, 2002

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Roane State Community College. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to "perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller."

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

The idea for Tennessee's community college system was conceived in 1957 when the state legislature ordered a study of community college programs, a study which resulted in the Pierce-Albright Report. Acting on the recommendation of the Governor and the Department of Education, the General Assembly authorized the Department of Education to establish several community colleges throughout Tennessee. Roane State Community College was established as a two-year college by the 1969 General Assembly. The first student was admitted in the fall of 1971. The General Assembly vested the governance of Roane State Community College in the Tennessee Board of Regents on July 1, 1972.

ORGANIZATION

The governance of Roane State Community College is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the college is the president, who is assisted and advised by members of the faculty and administrative staff.

AUDIT SCOPE

The audit was limited to the period July 1, 2001, through June 30, 2003, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the years ended June 30, 2003, and June 30, 2002. Roane State Community College is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the college's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;

2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;

3. to determine the fairness of the presentation of the financial statements; and

4. to recommend appropriate actions to correct any deficiencies.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The college filed its report with the Department of Audit on March 13, 2003. A follow-up of the prior audit finding was conducted as part of the current audit.

RESOLVED AUDIT FINDING

The current audit disclosed that the college has corrected the previous audit finding concerning noncompliance with purchasing policies.

OBSERVATIONS AND COMMENTS

Roane State Community College serves as the lead institution under agreements with the Tennessee Technology Center at Crossville, the Tennessee Technology Center at Harriman, the Tennessee Technology Center at Jacksboro, and the Tennessee Technology Center at Oneida. Under these agreements, Roane State Community College performs the accounting and reporting functions for the centers. The chief administrative officer of each center is the director, who is assisted and advised by members of the faculty and administrative staff. Each director is responsible to the Chancellor of the Tennessee Board of Regents.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the college's financial statements for the years ended June 30, 2003, and June 30, 2002, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the college's financial statements.

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
SUITE 1500
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Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

June 22, 2004

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of Roane State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the years ended June 30, 2003, and June 30, 2002, and have issued our report thereon dated June 22, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. As discussed in Note 12, during the year ended June 30, 2002, the college implemented GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. The college also implemented GASB Statement 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and GASB Statement 38, *Certain Financial Statement Note Disclosures*.

<u>Compliance</u>

As part of obtaining reasonable assurance about whether the college's financial statements are free of material misstatement, we performed tests of the college's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We did, however, note certain less significant instances of noncompliance, which we have reported to the college's management in a separate letter.

<u>Internal Control Over Financial Reporting</u>

In planning and performing our audit, we considered the college's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted certain matters involving the internal control over financial reporting, which we have reported to the college's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

Arthur A. Hayes, Jr.

Arthur A. Hayes, Jr., CPA,
Director

AAH/th

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
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Independent Auditor's Report

June 22, 2004

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying statements of net assets of Roane State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 2003, and June 30, 2002, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the college's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Roane State Community College, as of June 30, 2003, and June 30, 2002, and the changes in financial position and the cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 12, during the year ended June 30, 2002, the college implemented GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* and GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. The college also implemented GASB Statement 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus,* and GASB Statement 38, *Certain Financial Statement Note Disclosures*.

The management's discussion and analysis on pages 8 through 22 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2004, on our consideration of the college's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

Arthur A. Hayes, Jr., CPA,
Director

AAH/th

ROANE STATE COMMUNITY COLLEGE
Management's Discussion and Analysis
For the Years Ended June 30, 2003, and June 30, 2002

This section of Roane State Community College's annual financial report presents a discussion and analysis of the financial performance of the college during the fiscal years ended June 30, 2003, and June 30, 2002. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the financial statements and notes. The financial statements, notes, and this discussion are the responsibility of management.

Using This Annual Report

This report consists of three basic financial statements. The Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows provide information on Roane State Community College as a whole and present a long-term view of the college's finances.

The Statement of Net Assets

The Statement of Net Assets presents the financial position of the college at the end of the fiscal year and includes all assets and liabilities of the college. The difference between total assets and total liabilities—net assets—is an indicator of the current financial condition of the college. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the college's equity in property, plant, and equipment owned by the college. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the college but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted net assets are available to the institution for any lawful purpose of the institution.

Statement of Net Assets (in thousands of dollars)

	June 30, 2003	June 30, 2002
Assets:		
Current assets	$ 5,486.3	$ 4,966.3
Capital assets, net	36,848.9	38,002.4
Other assets	2,769.0	2,549.4
Total assets	45,104.2	45,518.1

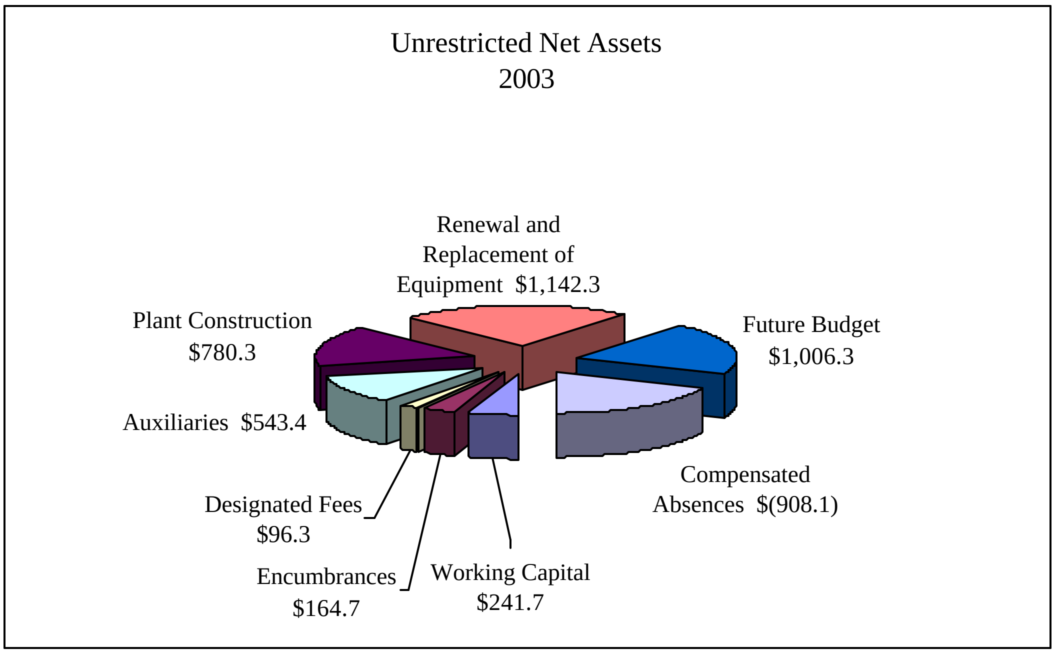
Liabilities:		
Current liabilities	3,402.5	3,033.3
Noncurrent liabilities	856.9	863.9
Total liabilities	4,259.4	3,897.2
Net assets:		
Invested in capital assets, net of related debt	36,692.0	37,765.1
Restricted - nonexpendable	18.2	18.2
Restricted - expendable	1,057.0	881.3
Unrestricted	3,077.6	2,956.3
Total net assets	$ 40,844.8	$ 41,620.9

- Total net assets at June 30, 2002, declined by $.8 million to $40.8 million at June 30, 2003. Total net assets at June 30, 2001, declined slightly to $41.6 million at June 30, 2002.
- Current assets at June 30, 2002, increased slightly to $5.5 million at June 30, 2003. Current assets at June 30, 2001, increased to $5.0 million at June 30, 2002, due to a significant increase in accounts, notes, and grants receivable. Major items included*:*
  - An appropriation receivable of $150,500 from the state for supplemental funding for medical insurance cost increases;
  - A new contract for the Quality Child Care Initiative of Anderson County; and
  - Significant increases in amounts due for the Workforce Investment Act and Families First programs.
- Capital assets at June 30, 2002, declined by approximately $1.2 million to $36.8 million at June 30, 2003, due to the excess of depreciation expense over capital additions. Capital assets at June 30, 2001, declined to $38 million at June 30, 2002, due to the excess of depreciation expense over capital additions.
- Other assets at June 30, 2002, increased by $.2 million to $2.8 million at June 30, 2003, due to an increase in amounts deposited with the State of Tennessee Local Government Investment Pool for capital projects. Other assets at June 30, 2001, declined to $2.6 million at June 30, 2002, due to significant declines in amounts deposited with the State of Tennessee Local Government Investment Pool for capital projects.
- Current liabilities at June 30, 2002, increased by $.4 million to $3.4 million at June 30, 2003, due to a significant decrease in accounts payable and significant increases in accrued liabilities, deferred revenue, and deposits held in custody for others. Current liabilities at June 30, 2001,

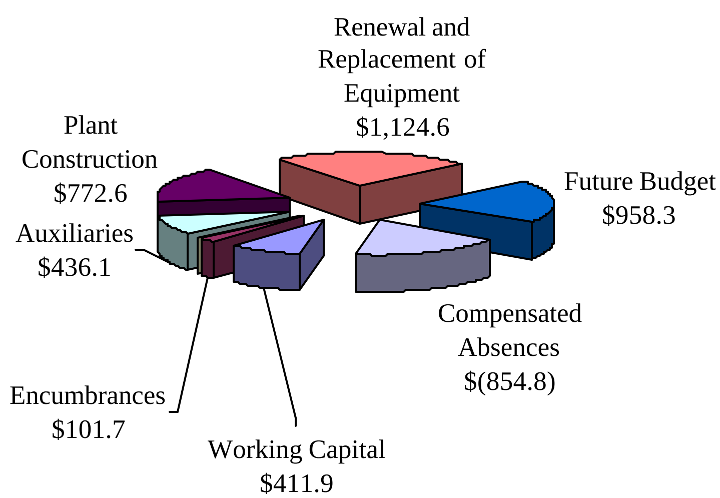
increased to $3.0 million at June 30, 2002, due to significant increases in deposits held in custody for others and deferred revenue.

- Noncurrent liabilities at June 30, 2002, remained unchanged at $.9 million at June 30, 2003. Noncurrent liabilities at June 30, 2001, increased to $.9 million at June 30, 2002, due to increases in the long-term portion of compensated absences.

Many of the college's unrestricted net assets have been designated or reserved for specific purposes such as repairs and replacement of equipment, capital projects, auxiliaries, future budget needs, encumbrances, and future revenues to cover the liability for compensated absences. The following graphs show the allocations (in thousands of dollars):



Unrestricted Net Assets
2002



- Overall, the total unrestricted net assets designated or reserved for specific purposes increased by over $116,500 from June 30, 2002, to June 30, 2003. Significant changes included:
    - A decline in working capital primarily the result of a $118,000 reduction in appropriations receivable and a net reduction in accounts, notes, and grants receivable of almost $50,000 primarily due to a decline in nonstudent receivables;
    - A new allocation for unexpended technology access and student activity fees of $96,300;
    - Increases in auxiliary enterprises balances of $107,300 due to the excess of revenues over expenses; and
    - Increases in encumbrances, plant construction, renewal and replacement of equipment, and future budgets totaling $136,400 and an increase in the negative allocation for compensated absences of $53,300.

The Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the operating results of the college, as well as the nonoperating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered nonoperating revenues according to generally accepted accounting principles.

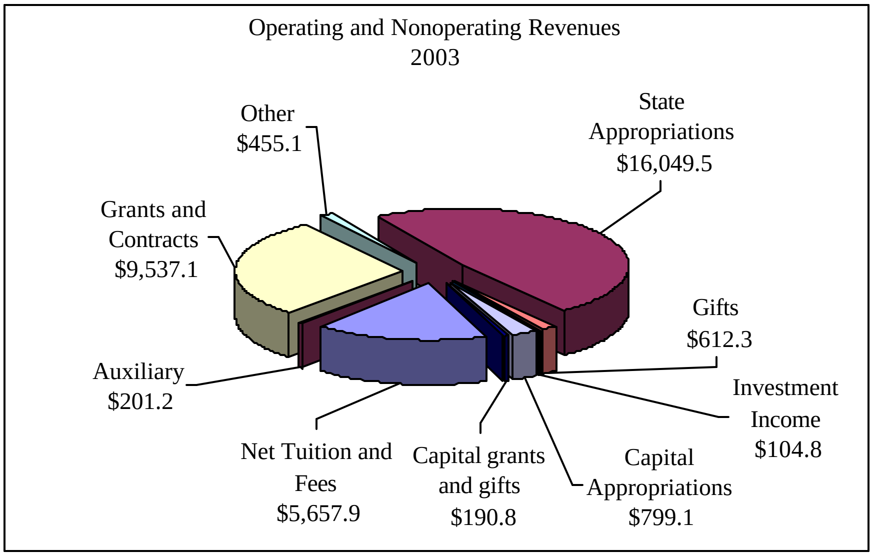
Statement of Revenues, Expenses, and Changes in Net Assets
(in thousands of dollars)

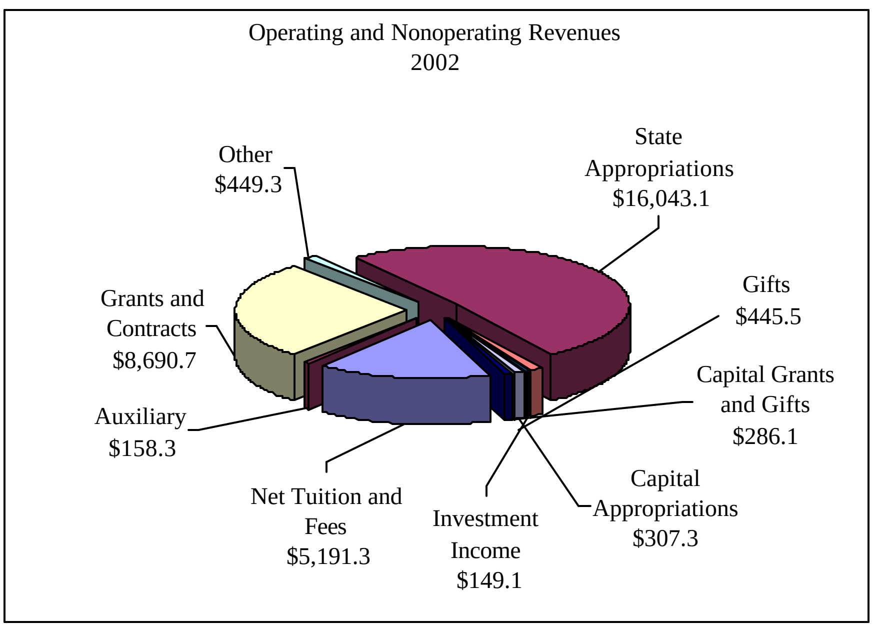
	FY 2003	FY 2002
Operating revenues:		
Net tuition and fees	$ 5,657.9	$ 5,191.3
Grants and contracts	9,537.1	8,690.7
Auxiliary enterprises	201.2	158.3
Other	455.1	449.3
Total operating revenues	15,851.3	14,489.6
Operating expenses	34,379.9	32,425.3
Operating loss	(18,528.6)	(17,935.7)
Nonoperating revenues and expenses:		
State appropriations	16,049.5	16,043.1
Gifts	612.3	445.5
Investment income	104.8	149.1
Other nonoperating revenues (expenses)	(4.6)	(7.8)
Total nonoperating revenues and expenses	16,762.0	16,629.9
Loss before other revenues, expenses, gains, or losses	(1,766.6)	(1,305.8)
Other revenues, expenses, gains, or losses:		
Capital appropriations	799.1	307.2
Capital grants and gifts	190.8	286.1
Other	0.6	69.0
Total other revenues, expenses, gains, or losses	990.5	662.3
Decrease in net assets	(776.1)	(643.5)
Net assets at beginning of year, as originally reported	41,620.9	60,263.8
Cumulative effect of changes in accounting principle	-	(17,999.4)
Net assets at beginning of year, as restated	41,620.9	42,264.4
Net assets at end of year	$ 40,844.8	$ 41,620.9

ROANE STATE COMMUNITY COLLEGE
Management's Discussion and Analysis
For the Years Ended June 30, 2003, and June 30, 2002

Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which were used to fund the college's operating activities for the years ended June 30, 2003, and June 30, 2002 (amounts are presented in thousands of dollars).





- From FY 2002 to FY 2003, tuition and fees revenue increased by $.5 million to $5.7 million. Major items impacting tuition and fees were:
    - A 7.5% increase in maintenance fees and out-of-state tuition;
    - A 3.3% increase in full-time equated enrollment; and
    - Scholarship allowances increased from $2.5 million to $3 million.
- For FY 2002, tuition and fees revenue totaled $5.2 million. Major items impacting tuition and fees were:
    - A 15% increase in maintenance fees and out-of-state tuition;
    - A 5% enrollment increase; and
    - Scholarship allowances.
- From FY 2002 to FY 2003, grant and contract revenue increased by $.8 million to $9.5 million primarily due to increases in federal Title IV financial aid program grants. For FY 2002, grant and contract revenue totaled $8.7 million.
- From FY 2002 to FY 2003, state appropriations revenue remained unchanged at $16 million. Major items impacting state appropriations were:
    - A 5% impoundment by the state totaling $829,500;
    - New appropriations for salary increases totaling $106,000;
    - New appropriations for group insurance and other benefits totaling $619,800; and
    - New appropriations for general operating improvements totaling $126,900.
- For FY 2002, state appropriations revenue totaled $16 million. Major items impacting state appropriations were:
    - A 1% set-aside by the state totaling $154,600;
    - New appropriations for salary increases totaling $298,500; and
    - New appropriations for group insurance and other benefits totaling $334,100.
- From FY 2002 to FY 2003, gifts increased by $.2 million to $.6 million.

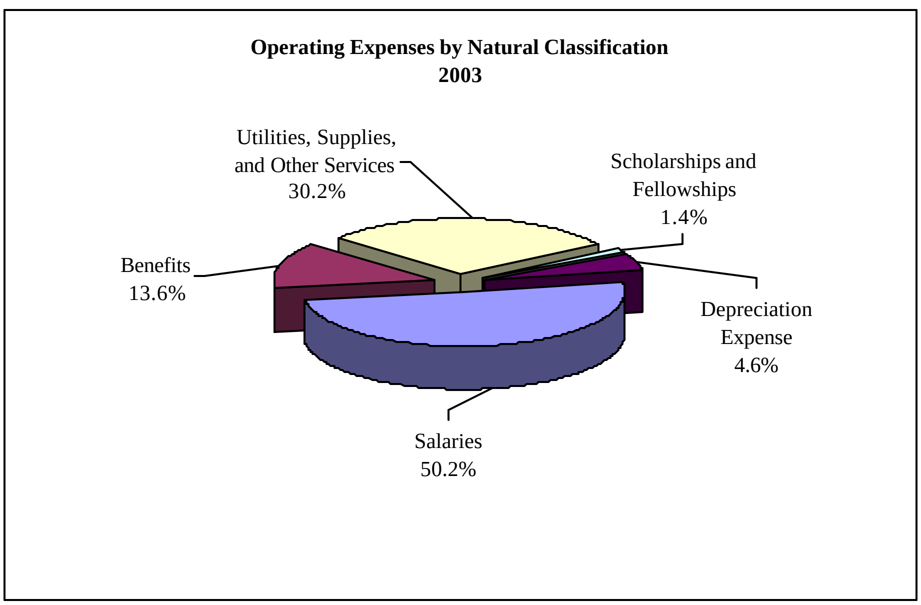
- For FY 2002, other revenues totaled $.4 million. The major item that impacted other revenues was declining interest income due to low interest rates.

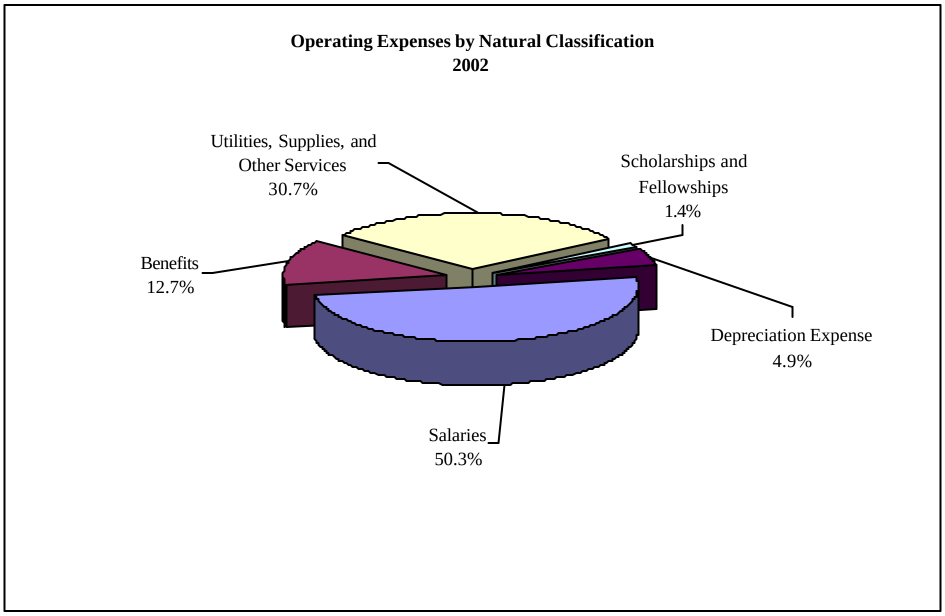
Expenses

Operating expenses can be displayed in two formats, natural classification and program classification. Both formats are displayed below.

Operating Expenses by Natural Classification (in thousands of dollars)

	FY 2003	FY 2002
Salaries	$ 17,249.3	$ 16,290.0
Benefits	4,676.4	4,121.9
Utilities, supplies, and other services	10,370.5	9,959.9
Scholarships and fellowships	500.8	458.1
Depreciation expense	1,582.9	1,595.4
Total operating expenses	$ 34,379.9	$ 32,425.3





- From FY 2002 to FY 2003, overall operating expenses increased by $1.9 million to $34.4 million.

- Salaries and benefits comprised 63.8% of the college's operating expenses for FY 2003, and increased from FY 2002 to FY 2003 by $1.5 million to $21.9 million due to:

  - Implementation of the second phase of a comprehensive pay plan in July 2002;
  - A 3% across-the-board salary increase in January 2003; and
  - Significant increases in group medical insurance benefit costs.

- Salaries and benefits comprised 63% of the college's operating expenses for FY 2002, and increased from FY 2001 to FY 2002 due to:

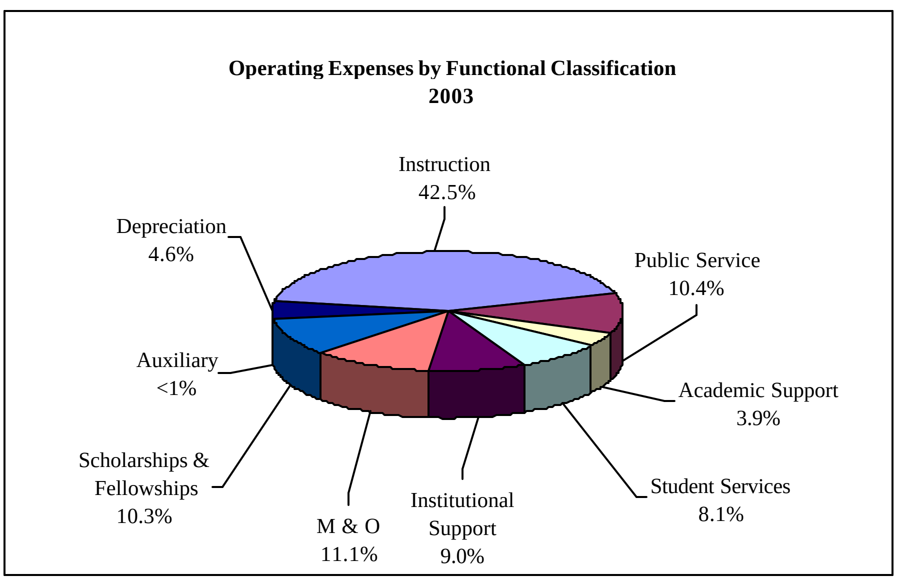
  - Implementation of the first phase of a comprehensive pay plan in July 2001;
  - A 2.5% state mandated across-the-board salary increase in July 2001; and
  - Significant increases in group medical insurance benefit costs.

- From FY 2002 to FY 2003, utilities, supplies, and other services (including travel, printing, communications, maintenance and repairs, professional services, supplies, rentals and insurance, grants and subsidies, other services, utilities and fuels, motor vehicle operations, stores for resale, and departmental revenues and service charges) declined to 30.2% from 30.7% of the college's total operating expenses. Utilities, supplies, and other services increased by $.4 million to $10.4 million primarily due to increases in grants to students in federal Title IV financial aid programs.

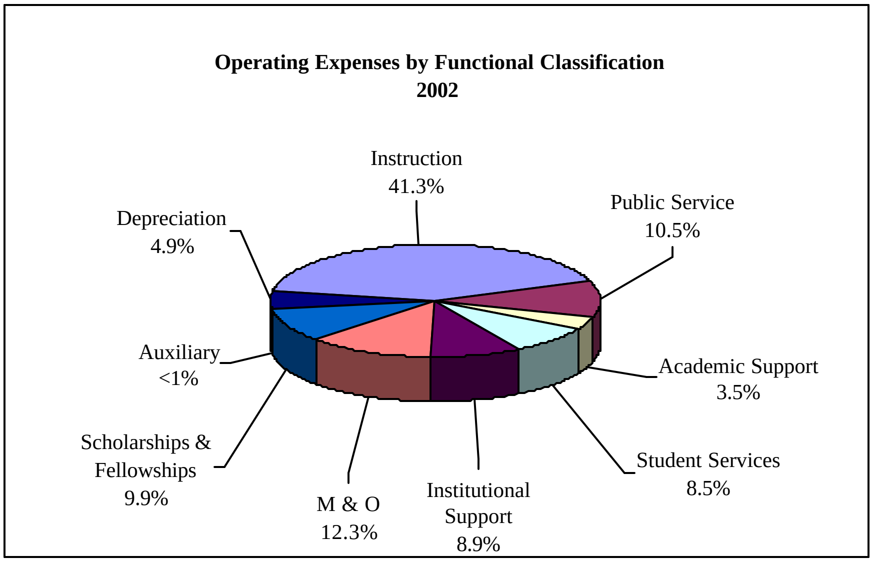
- For FY 2002, utilities, supplies, and other services were 30.7% of the college's operating expenses.

Operating Expenses by Functional Classification (in thousands of dollars)

	FY 2003	FY 2002
Instruction	$ 14,605.6	$ 13,422.8
Public service	3,592.6	3,402.0
Academic support	1,336.1	1,129.2
Student services	2,779.1	2,763.7
Institutional support	3,084.1	2,883.0
Maintenance and operations	3,819.6	3,981.2
Scholarships and fellowships	3,544.0	3,210.0
Auxiliary	35.9	38.0
Depreciation	1,582.9	1,595.4
Total operating expenses	$ 34,379.9	$ 32,425.3



ROANE STATE COMMUNITY COLLEGE
Management's Discussion and Analysis
For the Years Ended June 30, 2003, and June 30, 2002



- From FY 2002 to FY 2003, instruction, which includes all credit and noncredit instructional activities, increased by $1.2 million to $14.6 million.
    - Total expenses for instruction increased from 41.3% to 42.5% of total operating expenses.
    - Salaries and benefits for instruction increased by $.8 million primarily due to salary increases and increases in group medical insurance costs.
- For FY 2002, instruction comprised 41.3% of operating expenses.
- Public service includes the Henry/Stafford East Tennessee Agricultural Exposition Center, Workforce Investment Act (WIA), and Families First programs and represents 10.4% of total operating expenses for FY 2003 and 10.5% for FY 2002.
- Academic support includes libraries and other academic support activities and totaled 3.9% of total operating expenses for FY 2003 and 3.5% for FY 2002.
- Student service administrative activities, social and cultural activities, intercollegiate athletics, counseling, financial aid, and admissions and records are included in student services and totaled 8.1% of total operating expenses for FY 2003 and 8.5% for FY 2002.

- Institutional support includes executive management, fiscal operations, general administrative and logistical support, public relations, and resource development and totaled 9% of total operating expenses for FY 2003 and 8.9% for FY 2002.

- Maintenance and operations (M & O) includes building, custodial, and grounds maintenance, utilities, and noncapital maintenance projects and totaled 11.1% of total operating expenses for FY 2003 and 12.3% for FY 2002.

- Scholarships and fellowships include institutional scholarships as well as Title IV federal financial aid programs such as Pell Grants, Federal Supplemental Educational Opportunity Grants, and Federal Work Study.

    - From FY 2002 to FY 2003, total scholarships and fellowships increased by $.3 million to $3.5 million due to increases in grants awarded to students from federal financial aid programs and represent 10.3% of total operating expenses.
    - For FY 2002, scholarships and fellowships represent 9.9% of operating expenses.

The Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. This statement also assists users in assessing the college's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

Statement of Cash Flows (in thousands of dollars)

	FY 2003	FY 2002
Cash provided (used) by:		
Operating activities	$ (16,883.1)	$ (16,154.6)
Noncapital financing activities	17,224.0	16,324.3
Capital and related financing activities	474.3	(794.9)
Investing activities	104.3	149.2
Net increase (decrease) in cash	919.5	(476.0)
Cash, beginning of year	6,151.2	6,627.2
Cash, end of year	$ 7,070.7	$ 6,151.2

- One of the two major sources of operating cash for the college was tuition and fees which provided $5.6 million for FY 2003, an increase of $.3 million over FY 2002. Tuition and fees provided $5.3 million for FY 2002.

- The other major source of operating cash, grants and contracts, provided $9.6 million for FY 2003, an increase of $1.1 million over FY 2002. Grants and contracts provided $8.5 million for FY 2002.

- Payments to employees and payments for benefits were the primary uses of operating cash and totaled $17.4 million and $4.6 million, respectively, for FY 2003, which is an increase of $1.8 million over FY 2002. Payments to employees and payments for benefits totaled $16.2 million and $4 million, respectively, for FY 2002.

- Payments to suppliers and vendors used over $10.3 million cash during FY 2003, which is an increase of $.4 million over FY 2002. Payments to suppliers and vendors used over $9.9 million cash for FY 2002.

- For FY 2003, state appropriations, which are included in the Statement of Cash Flows in noncapital financing activities, continued to be the primary source of cash for the college and increased by $.3 million from FY 2002 to $16.2 million. For FY 2002, state appropriations provided almost $15.9 million.

- For FY 2003, purchases of capital assets and construction declined by $1 million to $.3 million.

- For FY 2003, state appropriations for capital additions and other similar projects, which are included in the Statement of Cash Flows in capital and related financing activities, increased by $.5 million from FY 2002 to $.8 million.

- Overall, the college's liquidity improved significantly from FY 2002 to FY 2003, and decreased slightly from FY 2001 to FY 2002.

Capital Assets and Debt Administration

<u>Capital Assets</u>

At June 30, 2003, the college had $36,848,958 invested in capital assets, net of accumulated depreciation of $16,657,692. At June 30, 2002, the college had $38,002,358 invested in capital assets, net of accumulated depreciation of $15,279,770. Depreciation charges totaled $1,582,960 for FY 2003 and $1,595,442 for FY 2002. Details of these assets are shown below.

Schedule of Capital Assets, Net of Depreciation (in thousands of dollars)

	June 30, 2003	June 30, 2002
Land	$ 2,748.5	$ 2,748.5
Land improvements and infrastructure	487.9	524.7
Buildings	32,037.0	33,022.0
Equipment	992.8	1,143.9
Library holdings	582.7	563.2
Total capital assets, net of depreciation	$ 36,848.9	$ 38,002.3

From June 30, 2002 to June 30, 2003, net capital assets declined by $1.15 million. Major building additions for the year included completion of the expansion of the student lounge at the Scott County Higher Education Center at a cost of $102,731 and final construction payments for the multi-purpose science lab at the Scott County Higher Education Center totaling $39,255; capitalized equipment purchases totaled $147,961, and additions to the college's library holdings totaled $139,752. Accumulated depreciation increased by $1,582,960.

During FY 2002, the college completed the addition of a new 2,200 square foot multi-purpose science laboratory to the Scott County Higher Education Center at a total cost of $337,498. This project was funded from private contributions. A major renovation of the cafeteria on the College's Roane County Campus was completed at a total cost of $219,127 with funding coming from campus renewal and replacement funds set aside for the cafeteria.

For FY 2004, one major capital asset addition is anticipated. The college plans to complete design, bid, and begin construction of the new Campbell County Higher Education Center facility. The State Building Commission has approved acceptance of a land donation for the site of the facility and transfer of the land from the Roane State Foundation to the college is currently underway. The cost of this project, excluding the land donation, is estimated at $3.35 million and will be funded from private contributions. More detailed information about the college's capital assets is presented in Note 6 to the financial statements.

Debt

At June 30, 2003, the college had $156,898 in debt outstanding. At June 30, 2002, the college had $237,275 debt outstanding. The table below summarizes these amounts by type of debt instrument.

Schedule of Outstanding Debt (in thousands of dollars)

	June 30, 2003	June 30, 2002
Loans payable	$ 31.9	$ 62.3
Commercial paper	125.0	175.0
Total outstanding debt	$ 156.9	$ 237.3

During FY 2003, the college did not issue any new debt. Indebtedness was reduced by $80,377 through annual debt service payments. During FY 2002, the college did not issue any new debt. Indebtedness was reduced by $78,931 through annual debt service payments. More detailed information about the college's long-term liabilities is presented in Note 7 to the financial statements.

Economic Factors That Will Affect the Future

The Governor recommended and the Tennessee legislature approved a 9% reduction in the college's base state appropriation for the 2003-04 fiscal year, which amounted to almost $1.5 million. To offset the reduction, the college's governing board approved a 14% increase in maintenance and out-of-state tuition fees which are expected to generate approximately $1 million in additional operating revenues if enrollment remains at 2002-03 levels. Additionally, in order to provide new resources to keep pace with changing technology and instructional equipment, the governing board also approved a $100 per academic year increase in the Technology Access Fee effective with the fall 2003 semester. This should generate approximately $500,000 in new revenues.

Future state appropriation funding levels could continue to be jeopardized if current state and national economic conditions do not improve.

Requests for Information

This financial report is designed to provide a general overview of the institution's finances for all those with an interest in the college's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Director of Fiscal and Auxiliary Services, at Roane State Community College, 276 Patton Lane, Harriman, Tennessee 37748.

Exhibit A

TENNESSEE BOARD OF REGENTS
ROANE STATE COMMUNITY COLLEGE
STATEMENTS OF NET ASSETS
JUNE 30, 2003, AND JUNE 30, 2002

	June 30, 2003	June 30, 2002
ASSETS		
Current assets:		
Cash and cash equivalents (Notes 2 and 3)	$ 4,301,705.05	$ 3,601,897.24
Short-term investments (Notes 3 and 4)	18,222.55	18,222.55
Accounts, notes, and grants receivable (net) (Note 5)	1,141,624.63	1,314,393.34
Inventories (at lower of cost or market)	7,538.92	10,832.42
Prepaid expenses and deferred charges	16,188.37	20,454.82
Accrued interest receivable	547.11	45.97
Other assets	500.00	500.00
Total current assets	5,486,326.63	4,966,346.34
Noncurrent assets:		
Cash and cash equivalents (Notes 2 and 3)	2,768,953.65	2,549,259.96
Accounts, notes, and grants receivable (net) (Note 5)	-	126.15
Capital assets (net) (Note 6)	36,848,957.66	38,002,358.26
Total noncurrent assets	39,617,911.31	40,551,744.37
Total assets	45,104,237.94	45,518,090.71
LIABILITIES		
Current liabilities:		
Accounts payable	194,044.48	460,874.58
Accrued liabilities	1,132,423.23	1,030,189.38
Deferred revenue	484,178.44	346,504.32
Compensated absences (Note 7)	127,822.71	149,393.20
Accrued interest payable	909.28	1,714.65
Long-term liabilities, current portion (Note 7)	81,898.01	80,377.24
Deposits held in custody for others	1,126,809.12	712,431.54
Other liabilities	254,364.72	251,764.69
Total current liabilities	3,402,449.99	3,033,249.60
Noncurrent liabilities:		
Compensated absences (Note 7)	780,275.82	705,390.71
Long-term liabilities (Note 7)	75,000.00	156,898.01
Due to grantor	1,666.30	1,642.80
Total noncurrent liabilities	856,942.12	863,931.52
Total liabilities	4,259,392.11	3,897,181.12
NET ASSETS		
Invested in capital assets, net of related debt	36,692,059.65	37,765,083.01
Restricted for:		
Nonexpendable:		
Other	18,222.55	18,222.55
Expendable:		
Scholarships and fellowships	6,117.74	6,772.56
Instructional department uses	25,190.09	22,764.67
Loans	38,623.56	37,795.95
Capital projects	786,777.72	536,589.91
Debt service	60,129.93	116,377.54
Other	140,124.26	161,003.95
Unrestricted (Note 8)	3,077,600.33	2,956,299.45
Total net assets	$ 40,844,845.83	$ 41,620,909.59

The notes to the financial statements are an integral part of this statement.

Exhibit B

TENNESSEE BOARD OF REGENTS
ROANE STATE COMMUNITY COLLEGE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2003, AND JUNE 30, 2002

	Year Ended June 30, 2003	Year Ended June 30, 2002
REVENUES		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of $2,968,633.39 for the year ended June 30, 2003, and $2,507.288.49 for the year ended June 30, 2002)	$ 5,657,908.96	$ 5,191,258.91
Governmental grants and contracts	9,520,851.72	8,650,656.44
Nongovernmental grants and contracts	16,280.04	40,074.18
Sales and services of educational departments	4,002.77	3,904.38
Auxiliary enterprises:		
Bookstore	192,037.00	149,391.00
Food service	9,242.73	8,931.68
Interest on loans to students	355.77	355.77
Other operating revenues	450,662.72	444,980.58
Total operating revenues	15,851,341.71	14,489,552.94
EXPENSES		
Operating expenses (Note 16):		
Salaries and wages	17,249,309.91	16,290,018.37
Benefits	4,676,390.48	4,121,883.78
Utilities, supplies, and other services	10,370,487.92	9,959,931.21
Scholarships and fellowships	500,792.60	458,057.11
Depreciation expense	1,582,959.91	1,595,441.82
Total operating expenses	34,379,940.82	32,425,332.29
Operating loss	(18,528,599.11)	(17,935,779.35)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	16,049,470.00	16,043,070.00
Gifts	612,309.01	445,474.13
Investment income	104,822.61	149,137.43
Interest on capital asset-related debt	(4,542.93)	(7,746.16)
Net nonoperating revenues	16,762,058.69	16,629,935.40
Loss before other revenues, expenses, gains, or losses	(1,766,540.42)	(1,305,843.95)
Capital appropriations	799,054.27	307,261.72
Capital grants and gifts	190,833.50	286,055.35
Other	588.89	69,000.56
Total other revenues	990,476.66	662,317.63
Decrease in net assets	(776,063.76)	(643,526.32)
NET ASSETS		
Net assets - beginning of year, as originally reported	41,620,909.59	60,263,811.59
Cumulative effects of changes in accounting principle (Note 12)		
Adoption of capitalization criteria for buildings and additions	-	(1,957,625.50)
Adoption of depreciation for capital assets	-	(16,031,428.05)
Deferred revenue recognition	-	(8,713.63)
Reclassification of loan fund	-	(1,608.50)
Net assets - beginning of year, as restated	41,620,909.59	42,264,435.91
Net assets - end of year	$ 40,844,845.83	$ 41,620,909.59

The notes to the financial statements are an integral part of this statement.

Exhibit C

TENNESSEE BOARD OF REGENTS
ROANE STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2003, AND JUNE 30, 2002

	Year Ended June 30, 2003	Year Ended June 30, 2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 5,641,308.74	$ 5,309,788.53
Grants and contracts	9,614,256.04	8,491,817.85
Sales and services of educational activities	4,002.77	3,904.38
Payments to suppliers and vendors	(10,297,411.89)	(9,898,991.06)
Payments to employees	(17,375,261.01)	(16,178,472.73)
Payments for benefits	(4,627,876.32)	(4,016,926.95)
Payments for scholarships and fellowships	(498,875.75)	(461,847.25)
Loans issued to students	(22,877.15)	(19,661.15)
Collection of loans from students	25,166.90	19,946.90
Interest earned on loans to students	355.77	355.77
Auxiliary enterprise charges:		
Bookstore	192,037.00	142,878.85
Food services	8,359.15	10,744.13
Other auxiliaries	-	(75.00)
Other receipts (payments)	453,703.61	441,976.19
Net cash used by operating activities	(16,883,112.14)	(16,154,561.54)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	16,167,470.00	15,892,570.00
Gifts and grants received for other than capital or endowment purposes	510,591.46	356,819.09
Private gifts for endowment purposes	-	(100.00)
Changes in deposits held for others	545,954.10	74,963.74
Net cash provided by noncapital financing activities	17,224,015.56	16,324,252.83
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital - state appropriations	799,054.27	307,261.72
Capital grants and gifts received	39,380.82	194,684.50
Purchases of capital assets and construction	(279,458.86)	(1,282,639.94)
Principal paid on capital debt and lease	(80,377.24)	(78,930.70)
Interest paid on capital debt and lease	(4,620.08)	(8,733.82)
Deposit with trustee	223.00	223.00
Other capital and related financing receipts (payments)	74.70	73,217.51
Net cash provided (used) by capital and related financing activities	474,276.61	(794,917.73)
CASH FLOWS FROM INVESTING ACTIVITIES		
Income on investments	104,321.47	149,177.44
Net cash provided by investing activities	104,321.47	149,177.44
Net increase (decrease) in cash and cash equivalents	919,501.50	(476,049.00)
Cash and cash equivalents - beginning of year	6,151,157.20	6,627,206.20
Cash and cash equivalents - end of year	$ 7,070,658.70	$ 6,151,157.20

Exhibit C (Cont.)

TENNESSEE BOARD OF REGENTS
ROANE STATE COMMUNITY COLLEGE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2003, AND JUNE 30, 2002

	Year Ended June 30, 2003	Year Ended June 30, 2002
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (18,528,599.11)	$ (17,935,779.35)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	1,582,959.91	1,595,441.82
Gifts in-kind	101,717.55	58,655.04
Other adjustment	-	648.53
Change in assets and liabilities:		
Receivables, net	53,009.85	(357,621.33)
Inventories	3,293.50	9,416.82
Prepaid/deferred items	4,043.45	7,400.38
Accounts payable	(265,525.41)	88,412.31
Accrued liabilities	102,233.85	55,237.78
Deferred revenue	137,674.12	134,196.78
Deposits	-	(75.00)
Compensated absences	53,314.62	54,874.73
Due to grantors	(132,049.55)	130,750.63
Loans to students	2,289.75	285.75
Other	2,525.33	3,593.57
Net cash used by operating activities	$ (16,883,112.14)	$ (16,154,561.54)
Noncash transactions		
In-kind gifts - operating	$ 101,717.55	$ 58,655.04
In-kind gifts - capital items	$ 151,578.83	$ 91,370.85

The notes to the financial statements are an integral part of this statement.

Tennessee Board of Regents
Roane State Community College
Notes to the Financial Statements
June 30, 2003, and June 30, 2002

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The college is a part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

Basis of Presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.* This was followed in November 1999 by GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. The financial statement presentation required by those statements provides a comprehensive, entity-wide perspective of the college's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows, and replaces the fund-group perspective previously required.

Significant accounting changes made in order to comply with the new requirements include (1) adoption of depreciation on capital assets and (2) reporting summer school revenues and expenses between fiscal years rather than in one fiscal year.

Basis of Accounting

For financial statement purposes, the college is considered a special-purpose government engaged only in business-type activities. Accordingly, the financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All significant interfund transactions have been eliminated.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The college has the option of following private-sector guidance issued subsequent to November 30, 1989, subject to the above limitation. The college has elected not to follow private-sector guidance issued subsequent to November 30, 1989.

Amounts reported as operating revenues include (1) tuition and fees, net of waivers and discounts; (2) federal, state, local, and private grants and contracts; (3) sales and services of auxiliary enterprises; and (4) other sources of revenue. Operating expenses for the college include (1) salaries and wages; (2) employee benefits; (3) scholarships and fellowships; (4) depreciation; and (5) utilities, supplies, and other services.

All other activity is nonoperating in nature and includes (1) state appropriations for operations; (2) investment income; (3) bond issuance costs; (4) interest on capital asset-related debt; and (5) gifts.

When both restricted and unrestricted resources are available for use, generally it is the college's policy to use the restricted resources first.

Inventories

Inventories are valued at the lower of cost or market. All items are maintained on a first-in, first-out basis.

Compensated Absences

The college's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are reported in the statement of net assets.

Capital Assets

Capital assets, which include property, plant, equipment, and library holdings, are reported in the statement of net assets at historical cost or at fair value at date of donation, less accumulated depreciation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are not capitalized.

A capitalization threshold of $100,000 is used for buildings, and $50,000 is used for infrastructure. Equipment is capitalized when the unit acquisition cost is $5,000 or greater. The capitalization threshold for additions and improvements to buildings and land is set at $50,000.

These assets, with the exception of land, are depreciated using the straight-line method over the estimated useful lives, which range from 5 to 40 years.

Under a contract with the East Tennessee Human Resource Agency, the college is a service provider for the Local Workforce Investment Area in workforce investment area 4 of the State of Tennessee. The title to all the equipment purchased by the college under the provisions of the Workforce Investment Act resides with the U.S. government. Therefore, this equipment is not included in the college's capital assets.

Net Assets

The college's net assets are classified as follows:

<u>Invested in capital assets, net of related debt</u> – This represents the college's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

<u>Nonexpendable restricted net assets</u> – Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may be expendable or added to principal.

<u>Expendable restricted net assets</u> – Expendable restricted net assets include resources which the college is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

<u>Unrestricted net assets</u> – Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the college, and may be used at the discretion of the college to meet current expenses for any purpose. The auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the college and the amount that is paid by the student and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the college's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the college has recorded a scholarship discount and allowance.

NOTE 2. CASH

This classification includes demand deposits and petty cash on hand. At June 30, 2003, cash consisted of $568,897.95 in bank accounts, $7,765.00 of petty cash on hand, $5,853,170.01 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $640,825.74 in LGIP deposits for capital projects. At June 30, 2002, cash consisted of $818,261.60 in bank accounts, $7,765.00 of petty cash on hand, $4,886,914.27 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and $438,216.33 in LGIP deposits for capital projects.

LGIP deposits for capital projects - Payments related to the college's capital projects are made by the State of Tennessee's Department of Finance and Administration. The college's estimated local share of the cost of each project is held in a separate Local Government Investment Pool (LGIP) account. As expenses are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the college for any other purpose until the project is completed and the Tennessee Board of Regents releases any remaining funds.

NOTE 3. DEPOSITS

Some of the college's deposits are in financial institutions that participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2003, the carrying amount of the college's deposits in financial institutions participating in the collateral pool was $495,192.51, and the bank balance was $1,086,534.31. The bank balance was insured. At June 30, 2002, the carrying amount of the college's deposits in financial institutions participating in the collateral pool was $689,079.54, and the bank balance was $1,350,730.91. The bank balance was insured.

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 115%, 100%, or 90% of the uninsured deposits at financial institutions participating in the collateral pool and 105% of the uninsured deposits at all other financial institutions. The pledge level for financial institutions participating in the collateral pool is based on financial criteria set by the Collateral Pool Board with the financially strongest institutions being eligible for the lowest pledge level.

Deposits with financial institutions are required to be categorized to indicate the level of risk assumed by the college. Category 1 consists of deposits that are insured or collateralized with securities held by the college or by its agent in the college's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the college's name. Category 3 deposits are uncollateralized. This category includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the college's name.

At June 30, 2003, the carrying amount of the college's deposits was $587,120.50, and the bank balance including accrued interest was $1,179,009.71. The bank balance was category 1.

At June 30, 2002, the carrying amount of the college's deposits was $836,484.15, and the bank balance including accrued interest was $1,498,181.49. The bank balance was category 1

The college also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 4. INVESTMENTS

The college is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the college and that endowment investments be prudently diversified.

Investments are valued at fair value. The college's investments at June 30, 2003, and June 30, 2002, consisted of certificates of deposit with original maturities greater than three months. These have been included with other deposits in Note 3 to determine the adequacy of collateral security pledged.

NOTE 5. RECEIVABLES

Receivables included the following:

	June 30, 2003	June 30, 2002
Student accounts receivable	$ 416,263.54	$ 302,453.69
Grants receivable	726,082.73	746,934.78
Notes receivable	1,406.00	19,990.38
State appropriation receivable	32,500.00	-

Other receivables	170,298.20	369,856.49
Subtotal	1,346,550.47	1,439,235.34
Less allowance for doubtful accounts	(204,925.84)	(124,715.85)
Total receivables	$ 1,141,624.63	$ 1,314,519.49

Federal Perkins Loan Program funds included the following:

	June 30, 2003	June 30, 2002
Perkins loans receivable	$ 17,006.17	$ 16,294.63
Less allowance for doubtful accounts	(17,006.17)	(16,294.63)
Total	$ -	$ -

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 2,748,542.04	$ -	$ -	$ -	$ 2,748,542.04
Land improvements and infrastructure	1,296,315.33	-	-	-	1,296,315.33
Buildings	43,342,501.37	141,985.92	-	-	43,484,487.29
Equipment	4,726,188.04	147,960.96	-	81,828.58	4,792,320.42
Library holdings	1,168,581.21	139,751.76	-	123,347.91	1,184,985.06
Total	53,282,127.99	429,698.64	-	205,176.49	53,506,650.14
Less accum. depreciation:					
Land improvements and infrastructure	771,632.02	36,825.87	-	-	808,457.89
Buildings	10,320,523.66	1,126,960.42	-	-	11,447,484.08
Equipment	3,582,260.51	299,053.09	-	81,828.58	3,799,485.02
Library holdings	605,353.54	120,120.53	-	123,208.58	602,265.49
Total accum. depreciation	15,279,769.73	1,582,959.91	-	205,037.16	16,657,692.48

Capital assets, net	$38,002,358.26	$(1,153,261.27)	$ -	$ 139.33	$36,848,957.66

Capital asset activity for the year ended June 30, 2002, was as follows:

	Beginning Balance	Additions	Transfers	Reductions	Ending Balance
Land	$ 2,748,542.04	$ -	$ -	$ -	$ 2,748,542.04
Land improvements and infrastructure	1,246,315.33	50,000.00	-	-	1,296,315.33
Buildings	42,747,353.32	38,523.20	556,624.85	-	43,342,501.37
Equipment	4,583,297.66	605,608.14	-	462,717.76	4,726,188.04
Library holdings	1,154,026.09	156,376.49	-	141,821.37	1,168,581.21
Projects in progress	33,086.27	523,538.58	(556,624.85)	-	-
Total	52,512,620.71	1,374,046.41	-	604,539.13	53,282,127.99
Less accum. depreciation:					
land improvements and infrastructure	717,231.52	54,400.50	-	-	771,632.02
Buildings	9,197,995.89	1,122,527.77	-	-	10,320,523.66
Equipment	3,741,807.57	303,170.70	-	462,717.76	3,582,260.51
Library holdings	631,169.07	115,342.85	-	141,158.38	605,353.54
Total accum. depreciation	14,288,204.05	1,595,441.82	-	603,876.14	15,279,769.73
Capital assets, net	$38,224,416.66	$ (221,395.41)	$ -	$ 662.99	$38,002,358.26

NOTE 7. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2003, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
Loans	$ 62,275.25	$ -	$ 30,377.24	$ 31,898.01	$ 31,898.01
Commercial paper	175,000.00	-	50,000.00	125,000.00	50,000.00
Subtotal	237,275.25	-	80,377.24	156,898.01	81,898.01
Other liabilities:					
Compensated absences	854,783.91	698,156.59	644,841.97	908,098.53	127,822.71
Due to grantors	1,642.80	381.88	358.38	1,666.30	-

Subtotal	856,426.71	698,538.47	645,200.35	909,764.83	127,822.71
Total long-term liabilities	$1,093,701.96	$ 698,538.47	$ 725,577.59	$1,066,662.84	$209,720.72

Long-term liabilities activity for the year ended June 30, 2002, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Payables:					
Loans	$ 91,205.95	$ -	$ 28,930.70	$ 62,275.25	$ 30,377.24
Commercial paper	225,000.00	-	50,000.00	175,000.00	50,000.00
Subtotal	316,205.95	-	78,930.70	237,275.25	80,377.24
Other liabilities:					
Compensated absences	738,703.21	608,729.38	492,648.68	854,783.91	149,393.20
Due to grantors	1,608.50	393.88	359.58	1,642.80	-
Subtotal	740,311.71	609,123.26	493,008.26	856,426.71	149,393.20
Total long-term liabilities	$1,056,517.66	$ 609,123.26	$ 571,938.96	$1,093,701.96	$229,770.44

Loans Payable

The Tennessee Board of Regents, on behalf of the college, borrowed funds from the state's Energy Management Loan Fund to replace a chiller. The loan bears an interest rate of 5%, has a principal amount of $145,000.00, a minimum annual debt service of $33,491.00, and a due date of January 7, 2004. The balance owed by the college was $31,898.01 at June 30, 2003, and $62,275.25 at June 30, 2002.

Debt service requirements to maturity for loans payable at June 30, 2003, are as follows:

Year Ending June 30	Principal	Interest	Total
2004	$ 31,898.01	$ 1,592.99	$ 33,491.00

Commercial paper

The Tennessee State School Bond Authority also authorized the issuance of commercial paper to finance the costs of various capital projects. The amount issued for projects at the college was $125,000.00 at June 30, 2003, and $175,000.00 at June 30, 2002.

For the commercial paper program, the Tennessee State School Bond Authority maintains an interest rate reserve fund. The college contributes amounts to the reserve fund based on the amounts drawn. The principal of the reserve will be contributed to pay off notes or credited back to the college when the notes are converted to bonds. The interest earned on the reserve is used to pay interest due during the month.

NOTE 8. UNRESTRICTED NET ASSETS

Unrestricted net assets include funds that have been designated or reserved for specific purposes. The unrestricted net assets are composed of the following:

	June 30, 2003	June 30, 2002
Working capital	$ 241,694.67	$ 411,930.10
Encumbrances	164,654.64	101,697.54
Designated fees	96,348.54	-
Auxiliaries	543,416.38	436,129.56
Plant construction	780,306.97	772,567.05
Renewal and replacement of equipment	1,142,296.53	1,124,632.11
Unreserved/undesignated	108,882.60	109,343.09
Total	$ 3,077,600.33	$ 2,956,299.45

NOTE 9. ENDOWMENTS

If a donor has not provided specific instructions to the college, state law permits the college to authorize for expenditure the earnings of the investments of endowment funds. When administering its power to spend these earnings, the college is required to consider the college's long-term and short-term needs, present and anticipated financial requirements, expected return on its investments, price-level trends, and general economic conditions. Any earnings spent are required to be spent for the purposes for which the endowment was established.

The college chooses to spend only a portion of the investment income each year. Under the spending plan established by the college, accumulated unexpended earnings are authorized for expenditure. At June 30, 2003, investment income of $596.30 is available to be spent. At June 30, 2002, investment income of $1,095.16 is available to be spent. These amounts are included in restricted net assets expendable for scholarships and fellowships.

NOTE 10. PENSION PLANS

A. Defined Benefit Plan

Tennessee Consolidated Retirement System

Plan Description - The college contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202.

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 7.29% of annual covered payroll. Contribution requirements for the college are established and may be amended by the TCRS' Board of Trustees. The college's contributions to TCRS for the years ended June 30, 2003, 2002, and 2001 were $662,901.92, $541,513.61, and $505,485.57. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

Plan Description - The college contributes to three defined contribution plans: Teachers Insurance and Annuity Association–College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the college to the plans was $540,781.83 for the year ended June 30, 2003, and $510,082.74 for the year ended June 30, 2002. Contributions met the requirements for each year.

NOTE 11. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible college retirees. This benefit is provided and administered by the State of Tennessee. The college assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 12. CUMULATIVE EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLE

During the year ended June 30, 2002, the college implemented GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. As a result of this implementation, the college was required to make changes in certain accounting principles, specifically the (1) adoption of capitalization criteria of $100,000 and $50,000 for buildings and additions, respectively; (2) adoption of depreciation on capital assets; (3) recording of certain summer semester revenues between fiscal years rather than in the fiscal year in which the semester was predominantly conducted; and (4) reclassification of the U.S. government grants refundable amount as a liability.

Adoption of capitalization criteria for buildings and additions	$ (1,957,625.50)
Adoption of depreciation on capital assets	$(16,031,428.05)
Deferred revenue recognition	$ (8,713.63)
Reclassification of U.S. government grants refundable	$ (1,608.50)

NOTE 13. INSURANCE-RELATED ACTIVITIES

The state purchases commercial insurance for real property losses above $5 million per year and surety bond coverage on the state's officials and employees. In the past three fiscal years, the state has had no claims filed with the commercial insurer. Designations for casualty losses in the amount of $3.271 million for incurred losses at June 30, 2003, and $5 million for deductibles and $1.356 million for incurred losses at June 30, 2002, were established in the state's general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 2003, the scheduled coverage for the college was $49,666,200 for buildings and $18,691,100 for contents. At June 30, 2002, the scheduled coverage for the college was $49,771,900 for buildings and $20,214,300 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The college participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the college participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the college for bodily injury and property damage is limited to $300,000 per person and $1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The college participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 14. COMMITMENTS AND CONTINGENCIES

Sick Leave - The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was $5,397,828.42 at June 30, 2003, and $5,393,552.99 at June 30, 2002.

Operating Leases - The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were $456,477.70 and for personal property were $99,248.60 for the year ended June 30, 2003. Amounts for the year ended June 30, 2002, were $393,672.14 and $81,642.35. The following is a schedule by years of future minimum rental payments required under noncancelable operating leases that have initial or remaining lease terms of more than one year at June 30, 2003:

Year Ending June 30	
2004	$ 217,790.00
2005	217,790.00
2006	217,790.00
2007	181,947.50
2008	170,000.00
Total minimum payments required	$1,005,317.50

Construction in Progress - At June 30, 2003, outstanding commitments under construction contracts totaled $214,824.40 for infrastructure replacement and the Campbell County Higher Education Center, of which $27,462.40 will be funded by future state capital outlay appropriations.

Litigation - The college is involved in one lawsuit, which is not expected to have a material effect on the accompanying financial statements.

NOTE 15. AFFILIATED ENTITY NOT INCLUDED

The college is the sole beneficiary of the Roane State Community College Foundation. A board independent of the college controls this private, nonprofit foundation. The financial records, investments, and other financial transactions are not handled by the college, and these amounts are not included in the college's financial statements. As reported in the foundation's most recently audited financial report, at June 30, 2001, the foundation's assets totaled $7,919,079.99, liabilities were $528,475.25, and the net assets amounted to $7,390,604.74.

NOTE 16. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The college's operating expenses by functional classification for the year ended June 30, 2003, are as follows:

Functional Classification	Salaries	Benefits	Natural Classification Other Operating	Scholarships	Depreciation	Total
Instruction	$ 9,963,970.35	$2,411,017.32	$ 2,054,541.96	$ 176,013.27	$ -	$14,605,542.90
Public service	1,501,762.27	438,945.93	1,642,636.06	9,260.19	-	3,592,604.45
Academic support	1,452,177.13	462,748.61	(597,284.75)	18,454.44	-	1,336,095.43
Student services	1,292,778.62	403,416.79	970,295.77	112,588.55	-	2,779,079.73
Institutional support	1,952,697.35	570,687.31	550,903.10	9,817.86	-	3,084,105.62
Operation & maint.	971,794.83	387,751.44	2,459,089.57	959.07	-	3,819,594.91
Scholar. & fellow.	114,129.36	1,823.08	3,254,393.82	173,699.22	-	3,544,045.48
Auxiliary	-	-	35,912.39	-	-	35,912.39
Depreciation	-	-	-	-	1,582,959.91	1,582,959.91
Total	$17,249,309.91	$4,676,390.48	$10,370,487.92	$ 500,792.60	$1,582,959.91	$ 34,379,940.82

The college's operating expenses by functional classification for the year ended June 30, 2002, are as follows:

Functional Classification	Salaries	Benefits	Natural Classification Other Operating	Scholarships	Depreciation	Total
Instruction	$ 9,438,090.97	$2,145,953.96	$1,692,464.19	$ 146,337.29	$ -	$13,422,846.41
Public service	1,305,701.22	440,964.88	1,652,400.17	2,935.87	-	3,402,002.14
Academic support	1,365,737.83	389,033.14	(639,750.36)	14,141.34	-	1,129,161.95
Student services	1,253,571.84	365,203.60	1,053,917.92	91,028.53	-	2,763,721.89
Institutional support	1,854,664.56	451,984.05	567,096.87	9,267.73	-	2,883,013.21
Operation & maint.	938,389.46	328,164.39	2,713,675.64	924.52	-	3,981,154.01
Scholar. & fellow.	133,862.49	579.76	2,884,465.26	191,110.53	-	3,210,018.04
Auxiliary	-	-	35,661.52	2,311.30	-	37,972.82
Depreciation	-	-	-	-	1,595,441.82	1,595,441.82
Total	$16,290,018.37	$4,121,883.78	$9,959,931.21	$ 458,057.11	$1,595,441.82	$32,425,332.29